



Water Resources Division
Nunavut Regional Office
Iqaluit, NU X0A 0H0

Your file - Votre référence
2AM-MRY1325

December 24, 2015

Our file - Notre référence
IQALUIT#1011268

Stephanie Autut
Executive Director
Nunavut Water Board
Gjoa Haven, NU X0E 1J0

Re: Indigenous and Northern Affairs Canada's (INAC) updated estimate of reclamation costs and recommendation for the Mary River Project for the Annual Security Review Process for Water Licence #2AM-MRY1325 – Baffinland Iron Mines Corporation

Dear Ms. Autut,

This response was promised during the December 17, 2015 teleconference for the Mary River Project Annual Security Review (ASR). As a separate document you will find an updated reclamation cost estimate for the project made using RECLAIM v.7 and prepared by a consultant, SNC-Lavalin Inc. Updated versions of Tables 10 and 11 from the SNC-Lavalin report submitted on December 3, 2015 are annexed to this letter.

Updated INAC Reclamation Cost Estimate

In the week preceding the teleconference, Baffinland Iron Mines Corporation (Baffinland) provided supplementary information and clarifications to the Qikiqtani Inuit Association (QIA) and to us that could have an incidence on our reclamation cost estimate for the Mary River Project. As we stated during the conference, we had not had time to integrate the new information into our estimate and wanted to consider changes related to three topics.

1. Explosives and ammonium nitrate storage on site – Baffinland provided an updated inventory for explosives and ammonium nitrate as well as a unit rate for the disposal of ammonium nitrate. These are integrated in the updated estimate, have increased the direct costs by \$1,107,834 and increased indirect costs calculated as a percentage of direct costs.
2. Modifications to indirect costs for previous years – The cost estimate Baffinland submitted on October 30, 2015 contained modifications to indirect costs that were distinct from the changes made for reconciliation. We had not understood

the modifications and the consultant had only integrated the reconciliation changes in the estimate we submitted on December 3, 2015. Baffinland has since provided a clear explanation for the modifications and the consultant has integrated them in the updated model. The mobilization/demobilization costs, which are indirect, have decreased by \$2,782,861.

3. Fill application for disposal of the ship loader – There was some confusion as to whether this was included in the estimate Baffinland provided us on October 30, 2015 because one of the line items was fill application for the area required for the ship loader. Baffinland have confirmed that this was coincidental and no modifications have been made to fill application items in the updated estimate. INAC believes that, if necessary, this item should fall under the security for land lease 47H/16-1-2.

The updated reclamation cost estimate for the Mary River Project, developed using the 2016 work plan, is \$47,195,763. The table below presents initial and updated costs for this estimate.

| Reclamation costs estimate for Mary River Project water licence 2AM-MRY1325 using 2016 work plan | | | | | | |
|---|---------------------------------|---------------------------|------------------|---------------------------------|------------------------|------------------|
| | Original | | | Updated | | |
| | Total | On Inuit Owned Land | On Crown Land | Total | On Inuit Owned Land | On Crown Land |
| INAC | \$49,101,425¹ | \$48,214,392 | \$887,032 | \$47,195,763² | \$46,316,456 | \$879,307 |
| Baffinland | \$44,768,000³ | \$44,362,000 | \$406,000 | \$46,265,000⁴ | \$45,055,000 | \$1,210,000 |
| QIA | \$54,690,000¹ | \$54,690,000 ⁵ | | ⁶ | | |

¹ submitted to the Nunavut Water Board (NWB or Board) on December 3, 2015

² from this present, December 24, 2015, submission

³ submitted to the NWB on October 30, 2015

⁴ presented during the teleconference on December 17, 2015

⁵ QIA's estimate is exclusively in relation to activities affecting Inuit Owned Land

⁶ Not expected until January 11, 2016

Discussion with QIA outside ASR process

We would like to confirm in writing the position stated during the teleconference. The Department acknowledges that the QIA, as the landowner, has the right to hold security under their commercial lease with Baffinland. Presently, QIA holds approximately 100% of the security posted by Baffinland and the Minister holds close to 0%. In our view, the Crown is underfunded to do any meaningful intervention should the need arise.

The Department would like to hold discussions with the QIA to understand its expectations for reclamation responsibilities, both for the Crown and for itself. These

discussions would occur outside the ASR process but we would keep the Board informed of any understanding or agreements we might reach.

Recommendation

Our updated numbers require us to modify the recommendation submitted on December 3, 2015 and re-iterated in the teleconference on December 17, 2015.

The Department is of the opinion that security in the amount of \$47,195,763 is necessary to ensure that the project is secured for the peak-projected reclamation costs for the year 2016-2017, based on the 2016 work plan. This is \$487,737 less than the total security amount of \$47,683,500 held for the 2015 work plan.

It is INAC's submission that the amount of security held under water licence 2AM-MRY1325 should be increased from \$166,000 to \$879,300 in order to cover reclamation costs for activities on Crown land, as calculated by an independent estimate made using RECLAIM v.7. As in our December 3, 2015 letter, we request that the Board initiate a licence amendment process to increase the amount of security under the licence.

An additional \$713,300 in water licence security would be a modest step in correcting what the Department believes is an imbalance in security apportionment whilst avoiding over-bonding. Hopefully, discussions between the Department and the QIA can resolve the situation.

Please do not hesitate to contact me at 867-975-3876 or sarah.forte@aandc-aadnc.gc.ca for any additional information.

Regards,

Sarah Forté

Water Management Coordinator

c.c.: Erik Madsen, Vice-President of Sustainable Development, Health, Safety and Environment, Baffinland
Stephen Williamson Bathory, Director of Department of Major Projects, QIA
Scott Burgess, Mary River Project Manager, INAC
Matthew Senkow, Acting Director of Resource Management, INAC

ANNEX

Updated Tables 10 and 11 from SNC-Lavalin's
report: "Licence No. 2AM-MRY1325, Mary River
Project: Annual Security Review under Part C and
Schedule C of the Type "A" Water Licence – FINAL"
dated December 2, 2015

TABLE 10 RECLAIM Security Cost Summaries for the 2015/16 ASR Reconciliation and 2016 Work Plan (Revised 23Dec2015)

| Type A Water Licence RECLAIM Security Estimates | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|------------------|
| Cost Category | Total | Land Liability | Water Liability | IOL Liability | Crown Liability |
| 2015/16 Reconciliation | | | | | |
| Direct | \$25,854,639 | \$20,036,213 | \$5,818,426 | \$25,527,492 | \$327,147 |
| Indirect | \$20,432,892 | \$15,834,596 | \$4,598,295 | \$20,174,348 | \$258,544 |
| Total | \$46,287,531 | \$35,870,809 | \$10,416,722 | \$45,701,840 | \$585,691 |
| Marginal 2016 Work Plan | | | | | |
| Direct | \$561,106 | \$530,580 | \$30,526 | \$396,100 | \$165,007 |
| Indirect | \$347,126 | \$344,328 | \$2,799 | \$218,516 | \$128,610 |
| Total | \$908,232 | \$874,908 | \$33,324 | \$614,616 | \$293,616 |
| 2015/16 ASR Reconciliation and 2016 Work Plan | | | | | |
| Direct | \$26,415,745 | \$20,566,793 | \$5,848,952 | \$25,923,592 | \$492,154 |
| Indirect | \$20,780,018 | \$16,178,924 | \$4,601,094 | \$20,392,864 | \$387,154 |
| Total | \$47,195,763 | \$36,745,717 | \$10,450,046 | \$46,316,456 | \$879,307 |

TABLE 11 Detailed RECLAIM Cost Summary for 2015/16 ASR Reconciliation and 2016 Work Plan (Revised 22Dec2015)

| RECLAIM Cost Summary for 2015/16 ASR Reconciliation and 2016 Work Plan | | | | | | |
|--|--|---------------------|---------------------|---------------------|---------------------|------------------|
| Capital Costs | Component Name | Cost | Land Liability | Water Liability | IOL Liability | Crown Liability |
| Open Pit | Mary River Mine Pit | \$4,059,486 | \$4,059,486 | | \$3,922,229 | \$137,257 |
| Underground Mine | | | | | | |
| Tailings Facility | | | | | | |
| Rock Pile | Mine Site Waste Rock Pile | \$343,956 | \$343,956 | | \$343,956 | |
| Buildings and Equipment | Mine Site | \$6,473,382 | \$6,264,658 | \$208,724 | \$6,473,382 | |
| | Milne Port | \$5,511,367 | \$5,452,907 | \$58,460 | \$5,511,367 | |
| | Tote Road | \$2,357,224 | \$1,130,683 | \$1,226,541 | \$2,135,187 | \$222,037 |
| | Project Wide/ Other | \$539,255 | \$539,255 | | \$539,255 | |
| Chemicals and Contaminated Soil Management | | \$2,775,848 | \$2,775,848 | | \$2,724,131 | \$51,717 |
| Surface and Groundwater Management | | \$1,563,082 | | \$1,563,082 | \$1,533,961 | \$29,122 |
| Interim Care and Maintenance | | \$2,792,145 | | \$2,792,145 | \$2,740,124 | \$52,021 |
| | Sub-total: Capital Costs | \$26,415,745 | \$20,566,793 | \$5,848,952 | \$25,923,592 | \$492,154 |
| | Percent of Sub-total | | 77.9% | 22.1% | 98.1% | 1.9% |
| Overall Indirect Costs | | Cost | Land Liability | Water Liability | IOL Liability | Crown Liability |
| Mobilization/Demobilization | | \$11,216,047 | \$8,732,600 | \$2,483,448 | \$11,007,080 | \$208,967 |
| Post-Closure Monitoring and Maintenance | | \$1,560,000 | \$1,214,586 | \$345,414 | \$1,530,936 | \$29,064 |
| Engineering | 3.9% | \$1,030,214 | \$802,105 | \$228,109 | \$1,011,020 | \$19,194 |
| Project Management | 9.4% | \$2,483,080 | \$1,933,279 | \$549,801 | \$2,436,818 | \$46,262 |
| H&S Plans/Monitoring & QA/QC | | | | | | |
| Bonding/Insurance | 2% | \$528,315 | \$411,336 | \$116,979 | \$518,472 | \$9,843 |
| Contingency | 15% | \$3,962,362 | \$3,085,019 | \$877,343 | \$3,888,539 | \$73,823 |
| Market Price Factor Adjustment | | | | | | |
| | Sub-total: Overall Indirect Costs | \$20,780,018 | \$16,178,924 | \$4,601,094 | \$20,392,864 | \$387,154 |
| TOTAL COSTS | | \$47,195,763 | \$36,745,717 | \$10,450,046 | \$46,316,456 | \$879,307 |